



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

The Public Printer
United States Government Printing Office:

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office (the GPO) as of September 30, 2001 and 2000, and the related consolidated statements of revenues and expenses and cash flows for the years then ended. We have also examined management's assertions, included in the statement of assurance to us dated March 5, 2002 at page 48, regarding the effectiveness of the GPO's internal control over financial reporting that were in place as of September 30, 2001. The objective of our audits was to express an opinion on the fair presentation of the GPO's consolidated financial statements. The objective of our examination of management's assertions regarding internal control over financial reporting was to express an opinion on management's assertions. In connection with our audits, we also tested the GPO's compliance with certain provisions of applicable laws and regulations that could have a direct material effect on its consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements and on management's assertions about the effectiveness of internal control over financial reporting we conclude that:

- The GPO's consolidated financial statements as of September 30, 2001 and 2000, and for the years then ended, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and
- The GPO management has fairly stated, in all material respects, its assertions that internal control over financial reporting in place as of September 30, 2001, provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements, based upon criteria established under GPO Instruction 825.18A, *Internal Control Program*.

Our consideration of internal control over financial reporting resulted in deficiencies in the design and/or operation of the GPO's EDP general controls and internal control over its process for estimating its year-end workers' compensation liability, being identified as reportable conditions.

The results of our tests of compliance with laws and regulations disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards*.



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Note: The Public Printer's letter referenced above can be found on page 73



The following sections discuss our opinion on the GPO's consolidated financial statements, our opinion on management's assertions regarding internal control over financial reporting, our tests of the GPO's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the GPO as of September 30, 2001 and 2000, and the related consolidated statements of revenues and expenses and cash flows for the years then ended.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the GPO as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the GPO's consolidated financial statements taken as a whole. The consolidating and supplemental information on pages 38 through 47 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. This information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly, we express no opinion on it.

The information contained in the performance measures section has not been audited and, accordingly, we express no opinion on it.

Opinion on Management's Assertions about the Effectiveness of Internal Controls Over Financial Reporting

We have examined management's assertions included in its statement of assurance to us dated March 5, 2002, that internal controls designed by management provide reasonable, but not absolute, assurance that as of September 30, 2001, the following objectives were met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements.

In our opinion, management's assertions that internal controls in place as of September 30, 2001, provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements, are fairly stated in all material respects, based upon criteria established under GPO Instruction 825.18A, *Internal Control Program*.

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Note: The consolidating and supplemental information referenced above can be found on pages 58 through 72.



Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the GPO's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions, however, we do not consider the reportable conditions described below to be material weaknesses.

EDP General Controls

Deficiencies in the design and or operations of the GPO's EDP general controls are considered a reportable condition. This condition, which has been previously reported to management in prior years' audit reports, relates to the following areas.

- **Entity-Wide Security Program**

- There are several areas regarding an enterprise-wide security program that are inadequate. The program should establish a framework for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied.

Examples of weaknesses include:

- Establishment of risk assessment standards and the routine performance of formal risk assessments has not been implemented.
- The draft security program policy has not been finalized and implemented.
- Program management has not consistently conducted and documented periodic system reviews of application software systems and associated hardware.
- Compliance with GPO Personnel Security Program policy has not been enforced and termination and transfer procedures should be revised.

- **Access Controls**

- Certain access controls require modification in order to provide a more secure environment. Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. These controls include controls over physical access to computer resources, and controls that prevent unauthorized access to sensitive files.

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Examples of weaknesses include:

- Clear and concise criteria to classify entity-wide resources have not been established.
- A policy that requires resource owners to periodically review access authorization listings and privileges has not been established.
- Access privileges to Oracle utilities and “agents” have not been reviewed and restricted.
- Internal and external network security vulnerabilities to the GPO network have not been restricted.
- An entity-wide policy for review of audit logs and access violations has not been implemented.

• **Application Change Control and Systems Development**

- Certain controls over the modification of application software programs are deficient. These controls should be designed to ensure that only authorized programs and modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or “turned off” or that processing irregularities or malicious code could be introduced.

Examples of weaknesses include:

- An Office of Information Resource Management (OIRM) and Production systems development methodology has not been formally established.
- Application development standards and procedures have not been adhered to.
- An entity-wide development methodology has not been developed.

• **Segregation of Duties**

- Certain controls over separating the work responsibilities so that one individual does not control all critical stages of a process need improvement. These controls should be designed to ensure that duties are divided to diminish the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of another. Inadequately segregated duties increase the risk that erroneously or fraudulent transactions could be processed, that proper program changes could be implemented, and that computer resources could be damaged or destroyed.

Examples of weaknesses include:

- Development of a policy and a security plan for application systems has not been established.
- Management oversight, guidelines, guidance, and support to assist the local network administrators have not been provided.

• **Service Continuity**

- Losing the capability to process, retrieve, and protect information maintained electronically can significantly impact an agency’s ability to accomplish its mission. For this reason, an agency should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions and (2) a plan to recover critical operations should interruptions occur.

Examples of weaknesses include:

- Tape backup controls have not been implemented and emergency response procedures have not been developed.
- Contingency planning efforts have not been finalized.

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We again recommend that the GPO develop a formal action plan to review and revise its EDP general controls. This plan should address each of the five areas discussed above as well as any other areas that impact the general EDP control environment, set forth appropriate corrective action steps, assign responsibilities to employees, and establish target completion dates for each action. This plan should be adopted by the GPO and provide for periodic reviews towards achievement of corrective actions.

Workers' Compensation Liability

The GPO has developed its estimate for workers' compensation at fiscal year end using a methodology which is not a generally accepted actuarial approach for calculating such liabilities. In order to determine the reasonableness of the GPO's estimate, our procedures have included having our actuary review the methodology and assumptions for reasonableness. Such procedures resulted in significant adjustments to the GPO's estimate of the liability as of fiscal year end. We recommend that the GPO engage a third-party actuary who specializes in the calculation of workers' compensation liability to develop the GPO's estimate in the future.

We also noted other matters involving internal control over financial reporting and its operation that we do not consider to be reportable conditions. These matters, along with further technical details and related recommendations of the reportable conditions, will be reported to the GPO management in a separate letter.

Compliance with Laws and Regulations

The results of our tests of compliance with the laws and regulations described in the "Responsibilities" section of this report disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Consistency of Other Information

The performance measures, the consolidating financial statements, and other supplemental information contain a wide range of data, some of which are not directly related to the consolidated financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the consolidated financial statements. Based on this limited work, we found no material inconsistencies with the consolidated financial statements.

Responsibilities

Management's Responsibility

Management is responsible for:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, and for preparing the supplemental information and performance measures;
- Establishing and maintaining adequate internal control over financial reporting; and
- Complying with laws and regulations.

In fulfilling this responsibility, estimates and adjustments are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements of the GPO, based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United

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States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

We are also responsible for expressing an opinion, based on our examination, on whether management's assertions regarding the effectiveness of internal control over financial reporting are fairly stated, in all material respects, based on criteria established under GPO Instruction 825.18A, *Internal Control Program*. We conducted our examination of management's assertions regarding the effectiveness of the GPO's internal control over financial reporting in place as of September 30, 2001, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed test of the GPO's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct material effect on the determination of consolidated financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the GPO. Providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessed the accounting principles used and significant estimates made by GPO management;
- Evaluated the overall financial statement presentation;
- Assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements;
- Obtained an understanding of the internal control over financial reporting;
- Tested and evaluated the design and operating effectiveness of internal control;
- Tested compliance with certain provisions of laws and regulations that may materially affect the financial statements; and
- Performed such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by GPO Instruction 825.18A. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertions about the effectiveness of internal control over financial reporting. Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We believe that our audits and examination provide a reasonable basis for our opinions.

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**Distribution**

This report is intended solely for the information and use of the Public Printer, the Joint Committee on Printing, the GPO management, and the GPO's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 5, 2002